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Economics

Lebanon Offers Banks Dollars as 'Haircut' on Deposits Ruled Out

By Dana Khraiche

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- Banks to take new measures to prevent shortage of goods
- Salameh defends himself against corruption allegations

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Protesters gather outside Lebanon's Central Bank in Beirut on Nov. 11. Photographer: Anwar Amro/AFP via Getty Images

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Lebanon's central bank has no plans to impose formal restrictions on the movement of money or force depositors to accept losses, its governor said, but will offer "unlimited" dollars for commercial lenders to finance trade and meet customer demand through weeks of protest.

With Lebanon deep in political paralysis, bank chief Riad Salameh announced a series of banking measures to ease the sense of crisis and avoid a shortage of goods in the market. Lenders will now accept Lebanese pounds from clients repaying dollar loans, reevaluate credit facilities cut as the anti-government uprising began and cover checks that bounced as a result, he said, also asking banks to restore credit-card limits some had lowered.

"Banks will meet and approve and execute these measures immediately because they are important for the Lebanese economy," Salameh said at a press conference at bank headquarters in Beirut, where dozens and sometimes hundreds have been protesting for nearly a month, accusing lenders of profiting as living conditions deteriorated.

Banks had imposed their own restrictions on the transfer and withdrawal of dollars in order to minimize capital flight after the protests forced them to close for a week. Since reopening, some have frozen credit facilities for importers, leaving them unable to settle payments for goods already in transit to Lebanon and causing a public outcry and fears of shortages, among other measures.

Salameh, who's been at the helm of the central bank since 1997, said lenders could borrow dollars at an interest rate of 20% to ensure that they were able to give depositors ready access to their money -- on condition that the funds are not transferred abroad. He reassured that deposits are safe and banks are able to cover them if needed.

He also referred to a recent circular by the central bank, asking lenders to boost capital by 20% next year, and said the hike in liquidity should help banks "work on reducing interest rates."

"This is important to protect the continuity of banks -- they have an interest in that -- and to preserve the solvency of sectors in Lebanon's economy," he said. Salameh said banks will meet with businesses and traders to help them cover imports and facilitate their loan repayments.

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Calls have mounted for Lebanon to impose formal restrictions on the transfer of dollars abroad in order to defend its dollar peg as the country enters its third week without a prime minister. Saad Hariri resigned in the face of public protests last month but political bickering means no replacement has been named while the caretaker government is unable to take measures needed to pull the economy back from the brink.

Acknowledging talk of officially sanctioned capital controls, Salameh said they weren't being considered. "The central bank doesn't have the power to do this and it does not want to. We are a country that lives off transfers and we can't put Lebanese in a situation where they transfer their money into the country and cannot get it out."



Riad Salameh on Nov. 11.

To keep its lenders stable and defend the dollar peg, Lebanon relies on inflows from the millions of Lebanese living abroad. However, capital inflows needed to finance the large current account and fiscal deficits have slowed as confidence has dwindled. Meanwhile, outflows have gathered

pace.

Salameh said that some \$2 billion had been withdrawn from the banks during the crisis, mostly by panicky depositors storing emergency cash at home. A lack of access to dollars at the banks has forced importers and ordinary people to turn to exchange bureaus creating a parallel exchange rate and pressuring the peg.

The central bank has repeatedly said that Lebanon's peg of 1,507.5 pounds to the dollar was a guarantor of social stability and would not be compromised to ease the financial crisis. But on the street, it now costs at least 1,800 pounds to buy a single dollar, forcing up prices in a country that relies heavily on imports.

Salameh said the rise of a parallel dollar exchange rate was a natural response to the crisis but the measures announced on Monday should help restore some balance.

Under Attack

Salameh has been a target of the nationwide protests, with some accusing him of helping the banks profit under the so-called financial engineering operations that the central bank began conducting in 2016 and which boosted its reserves.

Last night, a couple of demonstrators approached the governor's house near Beirut carrying placards that read: "We want to know why there is no dollar" and "Why can't we make transfers?"

In a televised press conference, Salameh explained the bank's procedures and defended himself against the allegations, saying the central bank had been financing both the public and private sectors and stimulating the economy.

"We financed, we did not spend," he said. "Those who spent are the ones who decided on the government budgets and monitored them."

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